

You Do the Math



King County

Benefits, Payroll and
Retirement Operations

Retiree health costs and sick leave cash-out

Most King County employees are not fully unaware of the cost of health care insurance, services and medicine covered by the employer-paid health plans, much less the costs they will face as retirees. Many dream the dream of an early retirement, conveniently leaving out the cost of health care, and the dream that after age 65 Medicare will take care of things.

The goal of You Do the Math is to provide a reality check on that dream, help you estimate your retiree health costs and begin to think how you can manage sick leave to help meet those costs. Here is a worksheet and some information to help you figure out what your retiree health care costs will be. For those of you without an HRA VEBA account, you can begin to plan how you will meet your health care costs in retirement. For those of you with an HRA VEBA account, you can begin to plan how HRA VEBA will help defray those costs.

The information you will need for this exercise includes:

- An estimate of how much sick leave you will have when you retire
- An estimate of your hourly wage when you retire
- An estimate of your tax rate for the year you plan to retire (or use 30% as a rough estimate, which includes 7.65% FICA)
- An estimate of your health insurance premium costs (see reverse side for more information).

STEP 1: Figure out how much sick leave cash-out you can expect to receive.

_____ hrs. X .35	X \$ _____ =	\$ (a) _____
(hours sick leave) X	(hourly rate)	(estimated amount of
% cash-out rate)		sick leave cash-out)

STEP 2: For those with HRA VEBA, go to STEP 3 and enter 100% of your sick leave cash-out in line (c). For those without HRA VEBA, use this table to estimate the net amount sick leave cash-out after taxes. Multiply the estimated amount by 7.65% plus your tax rate, or use 30% as a rough estimate.

	Estimated amount of sick leave cash-out (a) X tax rate (use .30, or 0.765 + your tax rate)	Estimated amount in taxes
As Taxable Wages	\$ (a) _____ X _____ =	\$ (b) _____

Estimated amount of sick leave cash-out (a), less estimated amount in taxes (b)	Net amount
\$ (a) _____ - (b) \$ _____ =	\$ (c) _____

STEP 3. Figure out how far your sick leave cash-out will stretch to cover the cost of your health insurance premiums. Use your net sick leave cash-out (100% for HRA VEBA participants) and typical per-person per-month health insurance premiums. See reverse side for premium estimates.

Sick leave cash-out (net after taxes or 100% if VEBA)	Total monthly health insurance premium costs	Months paid for by sick leave cash-out funds
\$ (c) _____ ÷	\$ _____ =	\$ _____

Estimating retiree health costs – a reality check

Conservative estimates predict that a person retiring at age 60 with a normal life expectancy of age 84 will need \$150,000 for health care expenses. Inflation of health care premiums, which has been much higher than the Consumer Price Index, accounts for nearly half of those expenses. Retirement pensions (both from the Washington State Department of Retirement Systems and Social Security) have not in the past and are not expected to increase at as fast a rate as the cost of health insurance premiums. Your health insurance will not cover everything – it doesn't now and will not do so when you retire. Medicare will help, but provides only basic, essential care. It is not free and only takes over completely after nearly all financial resources are exhausted, leaving your spouse and dependents with severe financial hardships. No matter what coverage you may have, the copays, deductibles and out-of-pocket costs for doctors, drugs and other medical services add up. Expenses for assisted living (estimated to cost about \$30,000/year or more) are not covered fully or at all by Medicare and many health insurance plans.

Retirement health insurance

Retirement health insurance can be expensive. If you retire after becoming Medicare-eligible at age 65, you have to consider your health coverage in the context of Medicare-related plans.

For information about county retiree benefits

- Call Benefits, Payroll and Retirement Operations at 206-684-1556
- E-mail kc.benefits@kingcounty.gov
- Review county COBRA and retiree medical rates at www.kingcounty.gov/employees/benefits/leavingemployment.

For information about Medicare benefits and other health coverage

- Medicare – www.medicare.gov
- Statewide Health Insurance Benefits Advisors (SHIBA) – www.insurance.wa.gov/shiba